PERSI

NEWS TO USE

A newsletter for PERSI Employers

November 2001

- PERSI wins Benny Award
- Reporting software available

PERSI director receives national award for innovation in employee retirement benefits

Alan H. Winkle, executive director of the Public Employee Retirement System of Idaho (PERSI) received a national award for innovation in employee retirement benefits for PERSI's new Gain Sharing and Choice Plan 401(k) programs.

The "Benny Award," presented by Employee Benefit News (EBN) and corporate sponsor Vision Service Plan (VSP), recognizes professionals who have demonstrated excellence in developing and managing Health Care and Retirement programs yielding measurable impacts on cost and/or quality of these benefits.

PERSI's new retirement programs for public employees are becoming well known among the national retirement/ employee benefits community as unique employee benefits.

Alan accepted the award at the Benefits Management Forum & Expo in Atlanta, GA, in early October. Complete text of the EBN article:

PERSI director's campaign boosts retirement benefits 20%
By: Jill Elswick

Government executives can be as dogged as their fieriest private-sector counterparts in their resolve to provide competitive benefits to employees, if Alan Winkle is any example.

Winkle, executive director of the Public Employee Retirement System of Idaho (PERSI), has proven to be quite a crusader for competitive retirement benefits for Idaho's public employees. Although it took more than a decade in close conference with the Idaho legislature, Winkle successfully completed a series of plan enhancements that ultimately "supersized" plan members' nest eggs by 20%.

Winkle also used a grandfather loophole in the Tax Reform Act of 1986 to convert PERSI's 401(a) money purchase plan into a 401(k) plan for state employees. He later received the first approval from the Internal Revenue Service to expand this arrangement for all of Idaho's public employees, including schoolteachers and policemen.

Stock market gains of the late 1990s catapulted PERSI's funding from 72% of liability to 115% in a brief period of time. Winkle seized the unprecedented opportunity to reduce plan contributions while rewarding plan members, retirees, and employers with gain sharing funds skimmed from excess plan funds. For such achievements, Winkle claims the 2001 Benny Award for Retirement Planning.

Four steps

In the late 1980s, Winkle and a legislative committee looked around at public employee retirement systems in surrounding states and realized that to maintain a

Continued on back page

New software available for PERSI reporting

A private Boise company has developed a new software program called **PERSI Reports 2002** to handle PERSI payroll reporting requirements. This program was installed by one large PERSI employer and is functioning well.

This Windows based application works with most Microsoft Windows payroll and accounting packages and can handle any payroll cycle.

The payroll information contained in your Payroll and Accounting software is extracted to eliminate duplicate data-entry. The extracted data is brought into the PERSI Reports 2002 application to allow for user verification of data. The system will prompt the user for missing information, which in turn is stored within the PERSI Reports 2002 database. Once all information is captured, PERSI Reports 2002 will format the data and create the file to e-mail to PERSI.

Contact: Terry Paternoster, CPA
Macrosoft Programming Group, LLC
2037 South Chinkapin
Boise, ID 83709
Phone: 208-322-9085
Email: Terry@getmacro.com
Web: www.GetMacro.com

Purchase, installation and use of PERSI Reports 2002 is strictly between you and Macrosoft. PERSI accepts no responsibility for its cost or operation. While PERSI cannot endorse the product, we wanted to let you know of its availability. It may be a viable solution for your PERSI reporting needs.

:

Benny Award continued from front page

competitive position, Idaho needed to boost its pension benefit formula multiplier from 1.66% to a more generous 2%.

The plan's "rule of 90," where an employee's age plus years of service had to equal 90 for the employee to retire with full benefits also merited reconsideration. Other states offered more generous terms, allowing employees to retire earlier with full benefits.

Idaho's citizen legislature, which meets for only three months during the beginning of each year, agreed that PERSI's benefits needed enhancement. But they favored gradual improvements.

"The legislature decided to divide it into four equal chunks or phases," says Winkle. "Phases one, two, and three got passed in rapid succession each year, but phase four didn't make it. We finally completed that fourth step in 2000."

Each step effectively added 5% value to each active PERSI member's retirement benefit, Winkle explains. Because each step was "progressively harder," it was almost inevitable that the legislature would balk eventually. With phase four, they did.

"Some people believed the money was not well spent in doing what we were doing," says Winkle. "Others were very much advocates for it, so it was a little contentious from time to time."

In 2000, the Idaho legislature finally approved phase four. This action boosted the multiplier formula from phase three's 1.917% - multiplied by the number of an employee's months of service by average salary over the highest-paid 42 months - to the full phase four target of 2%. For public safety employees, the multiplier went from 2.225% to 2.3%.

Phase four benefit enhancements also included a more favorable 36-month final pay averaging period and an unreduced retirement under the rule of 85 (75 for public safety employees).

Impeccable timing

In the late 1990s, PERSI's investments paid off through what Winkle terms "a solid buy-and-hold strategy." Funded status improved so much that by mid-1998 the plan's unfunded actuarial accrued liability was eliminated. In 1999, the fund exceeded actuarial assumptions of 8% and earned 11.3% for the year, resulting in an impressive $654 million gain.

"We never kicked away a golden opportunity," says Winkle. "We were fortunate to set an asset allocation and ride the crest of the wave as we moved from 72% funded to 115% funded in that period of time."

Being more than 100% funded meant not having to pay unfunded actuarial accrued liability payments, which had previously amounted to about 4% of plan contributions. The situation enabled PERSI to shift 3% from previous plan costs in order to cut contribution rates for employees, who typically paid one-third of plan costs, and employers, who typically kicked in two-thirds.

Fifty-three thousand working public employees, 23,000 retirees, and 638 Idaho public agencies received a total of $155.4 million in gain-sharing from excess PERSI funds.

Employees saw funds equal to 4.56% (totaling $59 million) of their base plan account balances deposited into their 401(k) accounts; they could redirect these monies into a number of mutual funds. Retirees received 106% of their monthly pension payment (totaling $18.6 million) in the form of a 13th check in January 2001.

And employers shared a $77.7 million respite from plan contributions for a while.

Future gain-sharing arrangements will only occur each time the plan exceeds 113% of liability, says Winkle. In the meantime, employees are free to contribute pretax funds to their 401(k) accounts as a means of ensuring a comfortable retirement in addition to promised gains from PERSI's defined benefit plan.

No longer lagging

Winkle is now confident that Idaho's plan is competitive, but not overly so, with other state plans.

"We're right where we should be with the states surrounding us," says Winkle. "They're all at about a 2% formula, so we've hit that target. Plus the advent of gain-sharing was, I think, very good."

"Since we became overfunded, it was a real policy question as to whether we would cut contribution rates or raise benefits. Who gets the surplus? Who does it belong to? We were able to fashion something with the legislature and the constituent groups so that everybody got a piece of the pie."

"Of course, there isn't going to be any gain-sharing this year because of the negative markets, and that's just the way it goes. But the infrastructure is there. So when it happens, we can do the distributions again."

PERSI projects ending 2001 at about 99% funding, incurring a small unfunded liability. And if the sour economy continues, next year may bring contribution rate increases.

But as for this year, Winkle says the surplus did exactly what it was supposed to do: absorb market fluctuation, enable contribution cuts, and provide an extra benefit to plan members.